Washington’s Techno-Industrial Turn

The National Security Science and Technology Strategy: State Direction, Market Distortion, and the Cost of Alignment

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Abstract

This report examines the August 2026 National Security Science and Technology Strategy as evidence of Washington's shift from stewardship of innovation ecosystem toward explicit state techno-industrial strategy. Drawing on the strategy's ranking of 14 technology areas by battlefield relevance, budget linkage through fiscal 2028 memoranda, and the Pentagon's equity stakes (notably $5.7 billion in Intel), the analysis demonstrates a governance model that applies uniform instruments across technologies with fundamentally different market structures. The report traces the semiconductor precedent where subsidy, equity ownership, export licensing, outbound investment screening, and research vetting operate simultaneously, examines the rare-earth rare case where demand guarantees and price floors remove market discipline, and considers university research audits with two-week compliance windows that push institutions toward blanket withdrawal. It further analyzes the Sematech comparison (narrow scope, industry cost-sharing, sunset provision) against current practice (14 areas, no cost requirement, no endpoint), the fiscal contraction at NSF/NIH/DOE despite $26.7 billion in equity commitments, and the allied alignment challenge where Nexperia shows the cost of chokepoint control without matching resilience. The report concludes that the likely outcome is a hybrid model well-equipped to slow competitors but poorly equipped to accelerate American advantage, potentially sacrificing the openness that created it in the first place.

Keywords: AI and Autonomy, CHIPS Act, China Comparison, Critical Technology, Defense-Industrial Base, Export Controls, Federal Equity Stakes, Fifth-Generation Warfare, Foreign Investment Screening, Innovation Ecosystem, Intel Investment, National Security, National Security Science and Technology Strategy, Outbound Investment, Rare Earth Processing, Research Security, Sematech Precedent, Semiconductor Leadership, State Direction, Technology Prioritization, Techno-Industrial Strategy, Workforce Access

Category: Argument

1. Introduction: Security as the Primary Objective

Science and technology leadership is now an American national security objective in its own right. The National Security Science and Technology Strategy, published August 17, 2026, says so directly. It inverts a long-standing American convention under which strategic advantage arrived as by-product of commercial dynamism. Washington historically combined public investment in science with innovation ecosystem where firms and markets determined which technologies attracted capital.

> *“Washington is moving from stewardship of the innovation ecosystem toward explicit techno-industrial strategy in which the state ranks fields, selects firms, and prices access to technology.”*

2. The Ranking as Foundational Tool

The strategy organizes federal effort around four pillars: focused, resilient, agile, and secure. It names three priority areas for battlefield dominance: undersea, space, and AI with autonomy. Air superiority, long-range strike, and C5ISR sit one tier below. Twelve enabling technologies follow, with Appendix A listing 14 critical and emerging areas. Ranking carries the substantive change. Earlier lists were inclusive signals; this one assigns rank order and connects to fiscal 2028 R&D; budget priorities. Technology-specific plans at the next detail level will decide allocations.

3. Market Structures and Uniform Instruments

The strategy applies one governance logic across technologies whose market structures differ fundamentally. AI sits at one extreme: private capital dominates, capability is set by firms whose balance sheets exceed federal programs, and public leverage is marginal. Undersea sits at the other: one buyer, shallow supplier base, no commercial market. The state is the market; directed investment is the only route. Space complicates the argument favorably: commercial and military demand have converged, and Pentagon buys from firms whose civil businesses fund capability.

4. Ownership as Control Mechanism

Ownership has moved furthest and fastest. As of late July 2026, the administration committed roughly $26.7 billion across 30 equity or quasi-equity deals, the largest in Intel. The Pentagon holds $400 million of preferred stock in MP Materials with a warrant making it the largest shareholder. Subsidy leaves capital decisions with the firm; ownership creates a claim on those decisions. Advanced manufacturing shows instruments used together: Pentagon lent $150 million for rare-earth separation and guaranteed ten-year price floor of $110 per kilogram, roughly double prevailing price.

5. Export Control as Revenue Stream

Export policy completes the position. The President approved Nvidia H200 sales to China in December 2025, with government taking 25 percent of proceeds. Chips made in Taiwan route through the U.S. for screening. About ten Chinese firms cleared, each capped at 75,000 units. Control has migrated from prohibition to a licensed and taxed channel, converting a security measure into a revenue stream. Beijing then took control, stalling deliveries for seven months while steering buyers to Huawei. The smaller flow of chips is the result.

6. The Sematech Benchmark and Selection Error

Washington attempted techno-industrial strategy before. Sematech (1987) had three design features: narrow scope, industry cost-sharing (disciplining selection), and sunset provision. Current practice inverts each: 14 technology areas, no cost requirement condition, no endpoint specified. Selection error therefore has no built-in check. The fiscal base is also contracting: fiscal 2027 requests 55 percent cut at NSF, 15 percent at DOE Science, 12 percent at NIH despite $26.7 billion in equity commitments.

7. Allied Alignment and Nexperia Precedent

The protective perimeter extends outward. The strategy treats adoption of comparable outbound investment restrictions as evidence of distance from adversaries. Nexperia shows the cost. The Dutch government took temporary control in September 2025 on security grounds. Beijing blocked exports of finished chips from Dongguan, European carmakers warned of stoppages, and The Hague suspended its order weeks later. Disruption ran into 2026. Members asked to forgo optionality in exchange for unenforceable commitments.

8. Workforce and Research Security Trade-offs

The strategy commits to attracting global talent while policy measures reverse the trend. New international student enrollments fell 17 percent in fall 2025; H-1B registrations dropped 38.5 percent for fiscal 2027. University audits cover 130 foreign institutions with two-week compliance windows, pushing blanket withdrawal. The Office of Science and Technology Policy controls no levers determining workforce. Agile and secure pillars issue opposite instructions. Openness has served as intake channel as much as leak; visa and enrollment measures reduce both exposure and recruitment.

About the Author: Thomas O. Falk is a London-based journalist and analyst focused on transatlantic relations, U.S. affairs, and European security. With a background in political reporting and strategic analysis, he explores forces shaping geopolitical landscape.
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